

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



**FISCAL NOTE**

**SB 272 – HB 320**

February 4, 2023

**SUMMARY OF BILL:** Establishes that machinery, apparatus and equipment with all associated parts, appurtenances and accessories, repair parts, and any necessary repair or taxable installation labor that is used by the Department of General Services (DGS) for the Megasite Authority of West Tennessee is included in the definition of industrial machinery for the purpose of claiming the industrial machinery sales and use tax exemption. Clarifies that machinery and other materials purchased by a contractor who is contracting with DGS for the Megasite Authority of West Tennessee to complete a water pollution control or sewage system project are exempt from the sales and use tax.

**ESTIMATED FISCAL IMPACT:**

**Decrease State Revenue – \$724,300/FY23-24**

**Decrease Local Revenue – \$295,600/FY23-24**

Assumptions:

- Pursuant to Tenn. Code Ann. § 67-6-102(46)(A)(i), “industrial machinery” is defined to include machinery and materials purchased by a contractor for use in a project completed as a result of a contract with a county, municipality, or water and wastewater treatment authority to build or improve air pollution control, water pollution control, or sewage systems, for the purposes of the industrial machinery sales and use tax exemption.
- Based on information provided by the Department of Revenue (DOR), the costs for the upcoming water services project at the Megasite Authority of West Tennessee are approximately \$17,040,000.
- Labor costs, with the exception of labor costs required to install tangible personal property that remains tangible personal property after installation, for water services projects are not subject to sales and use taxation.
- It can be reasonably estimated that labor costs are 40 percent of total costs, with 3 percent of total costs coming from labor required to install tangible personal property; therefore, 63 percent of total costs are eligible for the sales and use tax exemption.
- It can be reasonably estimated that \$10,735,200 (\$17,040,000 x 63%) of the project costs would be eligible for the sales and use tax exemption.

- According to the Department of Economic and Community Development, the upcoming water services project will be completed within a 12-month period; therefore, the full cost of the project is estimated to be realized in FY23-24.
- The current state sales tax rate is 7.0 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- The Megasite Authority of West Tennessee is located in Stanton, Haywood County. It can be reasonably assumed that the majority of purchases will be made in various counties in Tennessee; therefore, for the purposes of this analysis, the estimated average local option sales tax of 2.5 percent will be used. A number of purchases may be made out of state; however, the amount is expected to be minimal.
- The decrease in state revenue is estimated to be \$724,284  $[(\$10,735,200 \times 7.0\%) - (\$10,735,200 \times 7.0\% \times 3.617\%)]$  in FY23-24.
- The decrease in local revenue is estimated to be \$295,560  $[(\$10,735,200 \times 2.5\%) + (\$10,735,200 \times 7.0\% \times 3.617\%)]$  in FY23-24.

### **CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.



Krista Lee Carsner, Executive Director

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